Emirates NBD

EMIRATES NBD FY 2018 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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CORPORATE PARTICIPANTS

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Operator

Good day, and welcome to the Emirates NBD FY 2018 Results Investor and Analysts Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Shayne Nelson, Group CEO. Please go ahead, sir.

Shayne Nelson

Thank you, Claire, and welcome to today's results call. Joining me, as usual, will be Surya, the Group's CFO and Paddy, our Head of Investor Relations. Hopefully, you've had a chance to see the results presentation, which was made available earlier today. We'll review the operational and financial highlights for 2018, after which you'll have the opportunity to ask any questions.

Page 3 of the presentation contains a summary of the key results. I am very pleased to report a strong set of results with net profits exceeding 10 billion dirhams for the first time in the Bank's history. This is a 20% increase in net profit underpinned by higher net interest income on the back of loan growth coupled with an improvement in margins. The operating performance was also supported by a 22% y-o-y improvement in provisions. We reached another milestone when assets surpassed the 500 billion dirham mark for the first time in the Bank's history. These healthy results have enabled the Board of Directors to recommend a 2018 dividend of 40 fils per share.

Net interest margins improved in 2018 as rate rises in early quarters flowed through to loan book which more than offset a rise in deposit costs. As signalled earlier, we expect any benefit from further rate rises to be more muted and this was the case in the final quarter with a small decline in margins. In 2018 we grew the loan book by 8% with growth distributed across all business units.

The Bank's balance sheet remains solid with healthy capital and liquidity ratios and stable credit indicators. Our research team have revised upwards their estimate of real GDP growth in 2018 to 2.4% on higher oil production in the second half of the year. For 2019, we expect economic activity to be

underpinned by higher oil production and increased government spending. We expect headline GDP growth in the UAE to reach 3.1% in 2019.

Economic conditions in Dubai remain challenging, as reflected by the slower pace of growth in both output prices and new orders in 2018. An escalation of global trade tensions this year could pose a headwind for Dubai's economy. In terms of strategic developments, we expanded our branch presence in both the Kingdom of Saudi Arabia and Egypt in 2018 and we have upgraded more of our branch network to be accessible to people of determination. We continue to lead the region in terms of digital banking and have expanded our contactless payment facilities to include Google Pay as well as launching exciting new savings products.

On the M&A front, we continue to work on the acquisition of Denizbank that was announced in May last year. In a separate transaction, along with the other shareholders of Network International, we continue to evaluate strategic options. At this point in time, there are no further updates to provide in relation to Denizbank or Network International. In the event of a material development, further announcements will be made through the appropriate channels, in accordance with applicable laws and regulations.

Overall I am very pleased with the Bank's strong performance in 2018. We delivered a healthy increase in profit across all business units whilst maintaining a strong balance sheet. We continue to advance the Bank's digital credentials, introduce exciting new products and convenient banking solutions that improve the banking experience for all of our customers.

I will now hand over to Surya, who will start going through the details of the presentation.

Surya Subramanian

Thank you, Shayne. I will talk about the full year and quarterly results contained on slides 4 & 5 of the presentation.

As Shayne mentioned, the Group's net profit of AED 10.04 billion is a milestone for the Bank and represents a 20% increase on the previous year. The increase in net profit was driven by asset growth, higher margins and reduced provisions which helped offset an increase in operating costs. Net interest income improved 19% during 2018 to AED 12.9 billion due to 8% loan growth coupled with an improvement in margins. Non-interest income declined 3% on lower income from investment securities. All business units delivered both higher revenues and increased profits during the year. Quarterly revenues demonstrated a similar pattern year on year, with strong growth in net interest income, a marginal decline in non-interest income, higher expenses and a significant improvement in provisions.

We did observe a drop in net profit quarter-on-quarter as income was broadly flat and both costs and provisions were higher in the final quarter of 2018. Provisions were higher in the final quarter, however the cost of risk for the year at 63 bps remains below the expected normalised level. Costs for 2018 were AED 5.6 billion, an increase of 16% on the previous year due to higher staff and IT costs, as explained in previous quarters. Costs were also higher as a result of international branch expansion, VAT, advertising and Expo 2020 sponsorship.

The cost to income ratio at 32.3%, remains within 2018 guidance of 33%. In the final quarter of 2018, the cost to income ratio rose above guidance to 33.5%. However we have a successful track record of managing costs and are confident that we will be able to work within our current guidance which remains unchanged for 2019.

Provisions of AED 1,748 million improved 22% compared to the previous year and the Non-Performing Loan ratio strengthened from 6.2% at the start of the year to 5.9%, helped by further writebacks and recoveries. Loans and Deposits increased by 8% and 7% during 2018. We are guiding for mid-single digit loan growth in 2019. The Liquidity Coverage Ratio remains healthy at 195.3% and the Advances to Deposits Ratio remains comfortably within Management's target range at 94.3% reflecting the Group's healthy liquidity profile. Capital ratios remain solid. After allowing for the 2018 proposed dividend, we are able to report a Common Equity Tier 1 ratio of 16.6% and a Total Capital ratio of 20.9%.

On slide 6 we see that margins improved in 2018, finishing the year at 2.82%, as rate rises flowed through to the loan book which more than offset a rise in funding costs. During the year, as interest rates moved higher, we observed a growing impact on margins from deposit and funding costs. In fact, despite rates rising in each quarter, in Q4 we observed that the impact from rising deposit costs was greater than the impact of the loan book re-pricing.

As we mentioned in previous quarters, this was expected as some depositors at the margin will shift to higher yielding fixed deposits in a rising rate environment. We have maintained our guidance for 2019 margins in the 2.75-2.85% range as we expect limited benefit from rate rises that are in any case forecast to be fewer than in 2018.

On slide 7 we see that gross loans grew in 2018. Consumer lending had the highest increase of 11% from growth in mortgages, cards and personal loans. The Corporate loan book increased by 9% due to growth in the construction, trade and FI sectors whilst Islamic financing grew by 8% with growth in manufacturing, trade, services and the FI sector.

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Deposits grew 7% during the year with all the increase coming from fixed deposits. The Bank ran several successful marketing campaigns during the year to arrest the decline in CASA balances, and we saw some success in Q4 on this front. CASA still represents a healthy 51% of total deposits. We, and the market, are not anticipating as many rate rises this year but we will continue to launch innovate products and services to attract and retain CASA.

On slide 8, we see that the Liquidity Coverage Ratio strengthened to 195.3% whilst the Advances to Deposits ratio at 94.3% remains comfortably within the 90-100% target range. Liquid assets are 84.6 billion dirhams or over 19% of total liabilities. During the year we raised 8.2 billion dirhams of term funding in 6 different currencies with maturities out to 30 years.

Group Funding along with FI & Investment Banking also refinanced a term loan facility scheduled to mature in mid-2019. This facility was extended to 2021 and upsized to 2 billion dollars at a more competitive pricing. We have 7 billion dirhams of term debt maturing in 2019 and this is comfortably within the Group's ability to refinance. These metrics demonstrate the Bank's healthy liquidity profile.

As reported earlier today, the Board of Directors have recommended a dividend of 40 fils per share which equates to a pay-out of 2.2 billion dirhams. This is accounted for in Q4-18 for capital adequacy purposes and hence the common equity tier 1 ratio remains unchanged at 16.6% for the quarter.

During 2018 the common equity Tier 1 ratio has strengthened by 1% and the Tier 1 ratio advanced by 0.9% as retained earnings more than offset the transition adjustment for IFRS 9 and the proposed dividend payment. The Capital Adequacy Ratio declined marginally in 2018, finishing the year at 20.9% from 21.2% at the beginning of the year as, with Central Bank approval, we repaid 3.6 billion dirhams of expensive Tier 2 debt. Credit Risk Weighted Assets increased by 3% during the year. However given the healthy level of retained earnings, we were able to improve the mix of capital, replacing inefficient Tier 2 capital with higher quality common equity tier 1 capital.

I now hand you over to Paddy to take you through the next few slides.

Patrick Clerkin

Thank you, Surya. Slide 10 shows that core fee income improved 4% during the year with the main driver being higher foreign exchange and derivative income. Core gross fee income improved 6% q-o-q due to seasonality, with all four components recording an improvement. Total non-interest income

declined 3% year on year as income from investment securities was affected by an impairment provision against a legacy private equity investment.

Property income improved during 2018 due to a smaller impairment on illiquid inventory. Inventory now stands at 1.1 billion dirhams, down from 1.3 billion dirhams at the beginning of the year and well down from a peak of over 3 billion dirhams back in 2013. The focus remains on growing core fee income and it is pleasing to see that in recent quarters, this component accounts for the bulk of fee income.

On slide 11 we see that costs were 3% higher q-o-q and 12% higher y-o-y due to an increase in staff and IT costs related to digital and technology that we had signalled earlier. Occupancy costs have risen year on year as we have expanded our international branch presence in both the Kingdom of Saudi Arabia and Egypt. In Q4 of 2018 we did see the cost to income ratio rise above management's stated target of 33%, although for the whole of 2018 it remained below this target. Management remain focused on cost management, and as demonstrated before, we are able to manage costs with the desired target.

Moving on to credit quality on slide 12. As mentioned earlier, the NPL ratio improved over the year, finishing 2018 at 5.9% from 6.2% at the beginning of the year. During 2018 we had 1.6 billion dirhams of write-backs and recoveries. The coverage ratio, excluding collateral, remains strong at 127.3%. The coverage ratio including collateral is around 200%. We expect credit quality to be stable in 2019.

Provisions for 2018 were 1.7 billion dirhams. This is a 22% improvement on 2017 and represents a 63bps annualised cost of risk, which is lower than the 73 bps observed in 2017. In recent years the cost of risk has been below the long-term equilibrium level of 80-100 basis points, helped by a healthy level of writebacks and recoveries. We do expect the cost of risk to increase in 2019 towards the long-term equilibrium level. Stage 1 and 2 ECL allowances now stand at 7.4 billion dirhams or 3.1% of credit risk weighted assets. This comfortably exceeds the 1.5% Central Bank requirement.

On slide 13, we see that, in 2018, Retail Banking and Wealth Management revenues improved 8% year on year. Net interest income grew 9% led by liabilities whilst fee income grew by 5% and represents 35% of total RBWM revenue. Loans grew 9% on increased demand for mortgages, cards and personal loans, whilst deposits advanced by 5%.

Liv., the country's first digital bank for millennials became the fastest growing bank in the UAE, acquiring over 10,000 customers per month. Emirates Islamic's recorded highest ever annual net profit

of AED 924 million, up 32% compared to last year. Revenue advanced 3% year-on-year on higher lending and higher core fee income. Financing receivables grew 7% during 2018 helped by growth in manufacturing, trade, FI and services sectors. Customer accounts declined by 1% during the year with CASA representing 66% of EI's customer deposits.

On slide 14 we see that Wholesale Banking revenue improved 18% y-o-y with net interest income up 24% on the back of loan growth and improved margins. Fee income declined by 2% during the year although the Bank was able to grow its share of non-funded income from Trade and Treasury products. Loans grew 7% during the year due to growth in construction, FI and trade sectors whilst deposits increased 5%. Global Markets &Treasury revenues increased by 18% during 2018

The ALM Desk delivered excellent results as they positioned the Balance Sheet to take advantage of rate rises. Treasury Sales witnessed higher volumes in foreign exchange and derivatives due to enhanced product capability and a closer working relationship with Corporate & Institutional clients. Trading delivered a strong performance despite challenging global market conditions, driven by Rates and FX and proactive risk management.

As mentioned earlier, non-interest income was affected by an impairment provision on a legacy private equity investment. The Global Funding Desk raised AED 8.2 billion of term funding in 6 currencies through a mix of public issues and private placements with maturities out to thirty years and helped upsize and extend a relationship club deal.

With that I will pass you back to Shayne for his closing remarks

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Shayne Nelson

Thanks Paddy. This strong set of results in 2018 was underpinned by a higher net interest income and improvement in provisions. The Bank's balance sheet remains solid with healthy capital and liquidity ratios and stable market indicators.

In 2019, we expect muted single-digit loan growth, margins to remain within the 2.75% to 2.85% range and stable credit quality. We expect to continue to manage costs within the 33% management target. We expanded our presence in both the Kingdom of Saudi Arabia and Egypt and we continue to work on the strategic initiatives and make our branch network even more inclusive while launching exciting new products and convenient services.

With that, I'd like to hand back to Claire, our operator. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

Okay, our first question today comes from Chiradeep Ghosh from SICO. Please go ahead.

Chiradeep Ghosh - SICO

Yes hi, thank you. My first question is on the asset quality. I want to get a sense of how are you seeing the overall asset quality in the UAE market, especially with the news of real estate on a slight downturn? And a related question is from which sector were your write-backs coming from, that AED1.6 billion? If you can throw some light on that. And the second one which I would like to get more clarity on is how is the Egyptian business going on? If you can throw some light on these two.

Shayne Nelson

Yeah, I'll do both of those. On asset quality, surprisingly, we saw an improvement in our retail book over the year of 2018. If you'd ask me at beginning given the economic conditions, would I expect that? No. Why? We have ramped up our collection methodologies and our teams in the – on the retail side. So that's paid really good dividends for us. So we improved the technology. We improved the quality of our people and our systems around how we manage our clients and that's turned out very well for us.

On the corporate side, if I look at our new problem loan formation, it's very low. Even though if you see the gross loan top-ups that we've done on the provisioning, it's very much around historical. And what – so your question is with such a coverage ratio, why you're topping up even now? Well, we're seeing a deterioration in asset prices obviously on some of the security that we hold and therefore have to actually top it up.

So if I look at the new problem loan formation that we've got, it's very low. Having said that, are we concerned about asset quality going forward? Yes, and I think it's one area we're doing a lot of proactive work on. I mean, it's no secret you guys all live in the market that the rates are dropping across all asset classes of property whether it be a residential, commercial retail. And that affects the cash flows of our clients where we've with funded them for real estate. So we're doing a lot of proactive work with our clients rather than allowing and have cash flow problems, looking at the loans early and getting in front of the problem to restructure them if we have to, so that we don't have that problem.

So I think overall, I'm happy with where we are and the progression we made in 2018. Am I concerned about the outlook? Yes, the market is not good in a lot of areas, and yeah, we're proactively managing that quite aggressively.

On Egypt, it's actually performed quite well. We don't disclose the numbers on it. But from a return on investment, it's actually doing okay, far better to be honest than I thought it would. When we constructed the budget for 2018, given the inflation in the country, given the interest rate increases that had happened, the currency had been smashed. Obviously we thought, well, we're going to get a big increase in bad debts. It's just a likely account. In fact that didn't happen at all, not just for us but for the whole industry, which always shows to me how deep the unofficial economy is of the Egypt. And so the book is performing very well. The profitability is not as high as we'd like obviously with the currency devaluation and we believe we'll get more out of it this year but far better than we thought it would from a contribution, given the circumstances of the economy.

So overall, yeah, very happy with the Egyptian performance. Next question please, Claire?

Operator

Our next question comes from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik - EFG Hermes

Hi, good afternoon, and congratulations on a good set of results. Few questions from my side. First of all, earnings was up nearly 20% compared to last year. However, you chose to keep your dividend flat. Just wanted to hear your thoughts on what was the reasoning behind this decision? Second question is on your cost to income. I think in your guidance you've mentioned cost to income target of around 33%, which I think is higher than what it is – it was in 2018. Do you see – is this attributable to higher investments in digital etc., or is it due to compression in revenue or weaker revenue outlook?

And finally, just a quick question on NIMs. So you're expecting relatively stable NIMs for 2019. Now I understand there will be a fewer rate hikes. But in terms of positioning, I think Emirates NBD is probably one of the better positioned banks in the UAE to benefit from rising rates, and I think there are at least two more – my expectation is there are two more rate hikes this year. So just wanted to hear your thoughts on why you feel that NIMs should be stable for the bank in '19 versus '18?

Surya Subramanian

Thank you, Shabbir. I'll take those questions. In terms of the net profit growth, you're right, it's 20% and we continued to hold our dividend flat at 40 fils. This, effectively on a higher profit base, gives

a lower payout ratio. But you'd note that we have kept our dividend constant at 40 fils for the last few years. There is obviously some capital conservation effort with this. It gives us the ability to augment our international presence, which is part of our stated strategy. The final call on the dividend though will be taken at the annual general meeting by the shareholders. So let's wait and see what they have to say.

On the cost income ratio, what you're looking at Shabbir is the full year number, which is below 33%. And in fact, even the year prior to that in 2017, we had been well below our target. But at that time we had indicated, we had invest in the IT transformation and the digital journey to come back closer to the cost income ratio of 33%.

Shayne Nelson

And if I remember quite a few of the analysts said there's no way you can do it, right?

Surya Subramanian

Yes, and yet we've hit close to it and in quarter four, we've actually surpassed it. Going forward, we are keeping our guidance unchanged. It will be obviously a story hopefully of both revenue growth and cost growth to support that revenue but working within the target range of 33%. We can safely say we will continue to invest in our IT transformation and digital journey because that's a multiyear journey but we will clearly look at other discretionary spend to see where we can move away from non-value-added costs to come within the range.

It's fair to say that costs are not a problem for our organization. We do get value for every dirham we spend, but it's just about maintaining the guidance that we've given and a certain profit trajectory that we want to maintain over the years.

Shayne Nelson

So for us, it's the pace of growth of costs or with our programs that we're doing. As you know, the digital transformation is a long-term program for us. And we really want to see the end of that. I don't think into what the third quarter of 2020 is probably around where we'll see the end of that transformation program with the architecture etc. So I think we've still got quite a way to go and that pace of that spend is really important to us as we go through the years

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Surya Subramanian

Yeah. And on your final question on net interest margin, Shabbir, you had noticed that in quarter three and quarter four, our ability to grow the NIMs quarter-on-quarter has been constrained and that was really because of this shift from CASA to fixed deposit being more pronounced in those quarters.

And indeed if you look at quarter four by itself, margins dropped by about 2 basis points compared to the previous quarter.

While people are talking about two more rate rises this year and that's also our house view, we do believe that we won't get the full benefit of that on to our income statement. We continue to focus on growing CASA. We haven't given up. The campaigns are live right now, the ones that we normally hold towards the end of the year. We've got some slight variations this year. There are no more Lamborghinis this year but there are different attractive rewards and prizes for our deposit holders and we have seen the CASA drop has been arrested in quarter four.

Also with the growth of the digital offering, we are beginning to see new sets of customers come to our banks. And what we believe is that the marginal shift for those high-value deposit holders from CASA to fixed deposit has probably occurred in 2018. So as we continue to add new customers each month, they will bring in new CASA. And that should give us some buffer against any funding cost increases. And hence, the reason for keeping the NIM guidance pretty much unchanged in the same flat range.

Shayne Nelson

But there's no doubt that the competition of deposits now in the market is much tougher than it has been historically. We got a pretty free run in CASA – don't get me wrong. We worked damn hard for our free run but we didn't have a massive competition out there at one stage for our strategy of CASA growth. And we got it up to 57% before the markets to work up. Now the market is… you may see the benefit of it and firing back to attract some of those deposits from us.

Surya Subramanian

Yeah. I'll take one question that came through the web from Vijay Harpalani from Al Tayer. It touches on a few points that Shabbir you've already raised. His first question was the movement from CASA to fixed deposits have gathered pace and are there any efforts to restrict these flows?

Obviously, we cannot stop these flows, Vijay. It will be what the customer wants to do. But as I explained in the previous question, we are adding new customers. We are offering new products and we hope that will bring in new CASA. At the same time, we hope that the sensitive investors would have already moved their balances and hence there would be no further attrition from CASA to fixed deposits.

Vijay also asks the question as to what drove the lower non-interest income, specifically the loss on private equity investment. And I will just remind everybody there was a certain incident in the second quarter of last year that was well-publicized in Dubai and the Middle East and various financial

institutions made stock exchange disclosures, as did we. There is nothing else to it. In fact had that not happened, we would have reported a much higher non-interest income and obviously a much higher net profit.

Vijay has two more questions. One is to ask about the drivers of the spike in Q4 loan loss provisions. The spike is related to the comments that Shayne made earlier that as the economy gets more challenging, asset values deteriorate, collateral values deteriorate. We have to top-up provisions. It also becomes more difficult to recover from legacy bad debt.

But also as Paddy mentioned, the overall loan loss provision for the year at 63 basis points is still lower than the 80 basis points to 100 basis points normal average. So we have been guiding even in earlier quarters this is expected to rise and we are giving almost the same indication that in 2019, we do expect that we will start moving towards the normal.

And Vijay's final question is, do you expect more recoveries from impaired loans? We do have a specialized unit, Vijay that continues to follow up on legacy debt and any emerging problem debt. We have been quite successful in recent years but obviously the easy fruit comes in first and then you have the more difficult ones. So it does become challenging. I can only say that we will keep trying.

Shayne Nelson

But having said this, Surya, I mean, I'd be pretty disappointed if we don't get recoveries out of that portfolio. It's a big book if you look at the gross amount that's sitting in there and we have to work it hard and maximize return to the shareholders. There was another question there about – Yeah, the web question on Turkey. Why is the deal in Turkey taking so long to close? It's from John James. What are the sticking points to the negotiations? And the third question was, what is the impact on the bank on the rift with Qatar?

I'll do number three first because that's a really easy one. For us, basically nothing. We closed our operations in the QFC way before there was a rift because we weren't generating much business there at all. So we really haven't got much. Historically never had much business with Qatar. So the effect on us with the Qatar as an institution is miniscule.

Why is the Turkey deal taking so long? I think we had to hire 380 from his highness Sheikh Ahmed to send all the information to the European regulators recently. The deal is taking so long purely because the number of regulators that we have to get approval through. DenizBank having operations in Russia, Austria, Germany, Cyprus, Bahrain – where else? Have I missed any? Yeah, UAE obviously we have to get approval and Turkey of course. So there's multiple jurisdictions that we have to go through to get approval. And unfortunately they all ask for different source of stress tests: stress tests on

liquidity, stress tests on capital, etc., etc. So the regulator side is taking us far longer than we would have hoped for.

So on the sticking points negotiation – I suppose what I would say on Turkey is we still want the transaction. If we could get it for a lower price, we would love that of course. But I can't really talk any more than to say that but we still want the transaction and we're working towards closing it. I think the reality now is we'd like to close it in the first quarter as in documentation close and probably settle it in the second quarter if it happens. Next question operator

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Operator

Thank you sir. Our next question today comes from Jad Pasunoori from Franklin Templeton Investments. Please go ahead. Your line is open

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Jad Pasunoori - Franklin Templeton

Thanks a lot for taking my question and congratulations on good set of numbers. Your loan growth rate was around like 7.5% in 2018, basically led by trade, sovereign and personal. Can you please help us understand like what are the segments will be leading the loan growth in 2019, especially when Dubai government contained their infra spend? That's one question.

And where are you guys in terms of single obligor issue? Did you guys talk to Central Bank and see when do you have to start implementing it? And the third, you guys are adding like 10,000 customers every month through Liv. your online platform, and how many of them are new and how many of them are from non-Dubai Emirate? Those are the questions from my end at this moment.

Surya Subramanian

Thank you and a very good set of questions. Let me start with Liv. which is the easiest to answer. The bulk of our customers in Liv. are new to the bank. We obviously do not share demographic details in terms of where they come from but we certainly do not have a cannibalization which we were initially worried that our own customers may move from one platform to the other. And that is not something we've seen. There is some cannibalization but about 80% of those 10,000 are new.

Obviously being millennials their ticket sizes for each customer is lower than what you would see for a customer acquisition in the main bank. But as Liv. continues to gather pace, we hope that that would also be beneficial to us and the customer. And this year, you can look forward to us adding a wider product range to Liv., which is currently just the deposit, debit card and some bill payment mechanisms with some MI that is useful to the customer. You'll see more products being added this year. In terms of the loan growth –

Shayne Nelson

I think one of the things I'll just add on Liv. is that we do get a lot of questions on Liv. as to how successful is it and how profitable is it. And so I'll try to address a couple of those. It is actually at the stage of breaking even and it does have a very low cost to income ratio. But to me, we're great that they breakeven or make money. But to me the whole drive on Liv. is it's experimentation and it allows us to do different technologies and trial different technologies through a standalone platform that really does help us.

And an example that I would give you is the accounting on Liv., we have now migrated to the main bank for example. So we do a lot of learnings within that platform with a millennial to early adopters of technology. And then if it's successful, then we can move it onto the main platform. So to me, the key importance of Liv. is not just as good for attracting a client base that we probably historically would not have attracted. But it's also an experimentation base for new technologies, it's an excellent platform.

And that to me is more important, frankly on does it make a lot of money or does it not make a lot of money. It's like we need something to test and learn and this is actually a great platform to do it.

Jad Pasunoori - Franklin Templeton

Can I ask one question then? So you said you would spend like a billion on digital platform and you have – I think, one of the commentators said it will end by 3Q 2020. How much you have spent so far and what is the remaining?

Shayne Nelson

The program is about $300 million and it's really phased over about 3.5 years. I really can't give you any more information other than that.

Surya Subramanian

I'll pick up on the loan growth. As I mentioned earlier during my commentary, the sectors that grew in 2018 were really trade, personal and the financial institutions sector, with a little bit on manufacturing and construction. Having said that, we are one of the largest banks in this region, we are the largest bank in Dubai, so we are represented in pretty much all the economic activity that happens in Dubai. And hence loan growth in 2019 will also be consistent with the sectors that grow in Dubai broadly. That's what I would say.

Shayne Nelson

On retail, I would say – on that question, I'd say if you look at the growth we've had in the last few years on our retail lending and deposits, as importantly, we're growing market share. And I think that's largely reflective of our digital capabilities. There's no doubt in my mind that our journey to be the best digital bank in the region has really helped with our customer acquisition. I think we are acquiring clients from other banks and we're acquiring market share.

Then if you look at our loan growth in retail for example versus the market, we are growing well and truly above market. And it's not because – and it's both sides of the balance sheets, the deposits and our loans. So it's not like we're dropping our credit standards to try to get more market share because that's not true. Instead our capabilities and our distribution capabilities are actually attracting customers away from other banks.

Surya Subramanian

And finally, on your question on single obligor, we do have an approach that is agreed with the Central Bank of the UAE on how we would treat our exposure to the large single obligor and there is still ongoing discussion to bring resolution that will take us to full compliance over the next couple of years.

In the meantime, our 2018 financial statements have been prepared on the basis that we have agreed with the Central Bank, has been signed off, as you know, by our auditors, and obviously we have the approval of the Central Bank to release to the public as you have seen today. That's probably all I can say on that.

Jad Pasunoori - Franklin Templeton

So where you now like 240% or –

Shayne Nelson

And it's fair to say if you look at the financials, you'll see that the materiality is not higher…. But we can't specifically comment on a customer on how we treat a customer. Yeah, that's not what we can do.

Operator

Our next question today comes from Vijay Raghavan from Arenco. Please go ahead.

Vijay Raghavan - Arenco

Hi, good afternoon, Shayne and Surya. Congrats again for the great set of results. The one advantage of being late in the questions is most of the points would have been covered and quite a few of them have been covered and thank you both for that. Just one quick one now that I got my time. Any timelines or any indication on the ENI deal which has been in the press?

Surya Subramanian

So Vijay, all that we can say is that there is obviously a potential for an IPO that is being discussed between the other shareholders, ourselves and the company. Beyond that, I'm unable to say anything. Obviously if there is an IPO, you will see a formal notification and we'll see where this goes.

Operator

Our next question comes from Alok Nawani from Ghobash Trading Investments. Please go ahead.

Alok Nawani - Ghobash

Good afternoon, gents, and thanks very much for the call. Just one question from my side. In terms of your absolute impaired loans, I can appreciate on a year-on-year basis, you've actually had improvement on retail as you were saying and also on Islamic. But I was just wondering if you could highlight what pockets of your lending book saw pressure within the corporate space, which saw NPLs increased from 14 billion to 15.4 billion in the last year and generally speaking your outlook for asset quality and sectors which you think might be troublesome in the coming 12 months?

Surya Subramanian

So if you look at our loan book, it runs into hundreds of billions. So when you look at a shift of 1 billion, you're talking about 1%. So again, we are not at liberty to share individual names and so on. But in our business, some people do go bad and then we work with them to see how we can make an improvement.

Now if you look at the operating segments as you rightly pointed out, it is in the corporate banking space. And that is an area where I would say we are just seeing a normalizing of our risk profile, which in recent years has been much better than the normal. We are not expecting significant deteriorations going forward but we are expecting a continued normalization going forward.

Shayne Nelson

I suppose I'll be upfront and say I think the one sector I do have concern about from a risk basis is the property segment. Not so much the developers but investors who have bought their property and leverage them because you've got a double whammy of higher vacancies, lower rentals and higher interest rates. So I think that's one area from a risk profile perspective that we're looking very closely up as a complete portfolio. I think the other section that does concern me that's related is the contracted section. We have seen some delays in payments to contractors and that has a flown effect right through the ecosystem. So I think it's another area that we look at very closely.

I think hotels, albeit, that supply is up about – I think about 12% year-on-year for rooms. Numbers are still okay when it comes to rooms albeit that RevPARs have dropped. But I think our hotel portfolio is holding up well. But I can't speak for other banks on that. It depends on how aggressively they lend against these developments. I think we're in a decent position. Are we being cautious? Absolutely. I think it's a market, where we need to be cautious in 2019 going into 2020.

Alok Nawani - Ghobash

Great. I very much appreciate your outlook for the next year. But I mean just historically speaking, I can appreciate that you can't share names. But given that ENBD is one of the largest banks in the country, you're really a benchmark for the rest of the country. So if you could give us any guidance – any color on which sectors saw pressure within your corporate book last year that would be very helpful.

Surya Subramanian

I mean, the increase of a billion also wasn't just one company or it wasn't all companies from a certain sector. And as I said, given the size of our loan book, two or three loans which are at 300 million, 400 million each would give you the shift of 1 billion and one swallow doesn't necessarily makes a summer.

Operator

Our next question today comes from Robin Thomas from QIC. Please go ahead.

Robin Thomas - QIC

I wonder if you can give us an update on the foreign ownership limit extension process.

Shayne Nelson

Yeah, I knew I was going to get that question from you, Robin. Okay, what I would say on this is that I haven't got really much more news from our last quarter's presentation when we briefed the analysts at lunch recently, other than to say that we've got a lot of things on our plate at the moment, including the potential rights issue, the foreign ownership limit and also Deniz. And each of these initiatives affects our shareholders in different ways and will be prioritized accordingly.

And if you look at our shareholding base, quite far the majority of our shareholder base is a very, very long-term shareholders. And certainly how we're trying to piece all this together is to maximize the value for our shareholders. That's what I can really say as to where we are on the FOL. I know how price sensitive it is to all the analysts on the call and I do apologize that I can't be more specific. But be assured, we understand how price sensitive it is as well as is beneficial.

Operator

Our next question comes from Aybek Islamov from HSBC. Please go ahead.

Aybek Islamov - HSBC

Good afternoon, everyone. So I have a couple of questions I would say or the first one is I'm curious about the rights issue. What are your thoughts about the rights issue requirement and its size now in 2019 versus when you were announcing or when the board approved that rights issue last year? That's the first question.

Secondly, does the real estate market dynamic impact the risk weightings for real estate loans or construction loans for that matter? So that would be my second question.

And then third, I'd like to ask you about your growth prospects in the public sector, or in particular, loans to related parties in 2019. So obviously in 2018, you showed reasonable growth in loans in this segment. So I wonder what do you expect in 2019 in this particular segment? That's all. Thank you.

Shayne Nelson

Okay, on the rights issue, we've always said that it's – that we have the capital. If the Deniz acquisition goes ahead, we have sufficient capital to make the acquisition without the rights. However, we also are a quite conservative and prudent organization and our view was that that was the right thing to do was to go to the shareholders for up to $2 billion worth of additional capital.

Certainly if we didn't have an acquisition ready to go, we don't need capital, right. I'm sure you'd all criticize us for raising more capital at a time when we're very heavily capitalized. So I think for us, it's a matter of do we do deals, if we do the deal then the board will make a decision on the rights issue.

On the 2019, we've said to the analysts before, we would expect our main exposure to continue to grow, albeit at a less pace as we approach Expo 2020. We've said that before. I can't really say more than that given though it's a client. On real estate –

Surya Subramanian

On real estate, there is a debate on the cap that had been set in the old banking act and the current banking act doesn't have the cap although it fosters the administrative responsibility of setting a cap to the board of the Central Bank. And that is currently in discussion between the Banking Federation and the Central Bank.

Shayne Nelson

Was his question on cap?

Surya Subramanian

No, his question was on risk-weighting any changes. But the risk-weighting itself doesn't change because of the deteriorations in the markets. What does change, Aybek, however under the new accounting standards is under IFRS 9 if there is a deterioration in any sector, not just real estate, it could be any sector, then it is likely that the models will show a higher expected loss for that sector and that would flow through into the stage one and stage two impairment provisions that banks would disclose.

Aybek Islamov - HSBC

Okay. And how often do you reassess loan-to-value ratios on your real estate portfolio and where does the valuation input come from of the property portfolio?

Shayne Nelson

Our valuations are all independently done by – in paneled valuers, all the big names within town. The valuations often depend on what sort of transaction, if it is construction – under construction, we're obviously revaluing them regularly to make sure that they're spending money they say they're spending on the construction.

If it's a long-term LTV, it's subject to annual review. But that doesn't mean even though the loans are subject to annual review, it doesn't mean the valuation is subject to annual review. It all depends on the terms. If we've got a high loan-to-value ratio, say 70% on a property, there's more likelihood we'll have regular revaluations versus something that's 50%.

Patrick Clerkin

Okay, I think there was one further question on the web but Shayne answered that on the FOL. I think we have one more question. We can take one more question.

Operator

Thank you sir. This is a follow-up question from Jad Pasunoori. Please go ahead.

Jad Pasunoori - Franklin Templeton

Thanks for taking another set of questions. I'm not sure if you've answered this question but I'm just going to repeat it. Are you still going to expect recoveries from legacy NPLs?

Shayne Nelson

The answer to that is absolutely, otherwise I might not – might as we won't have a team doing it because I've got quite a big team of workout specialists in that portfolio. If you look at the gross exposure there, it's quite large and there's also quite a lot of security behind those exposures. So from our perspective, it's a book that we will want to work hard. The timing, can never be clear, right, as to what the timing is on these recoveries.

Obviously if the company is in problem, the timing can be quite difficult as to when will you recover this money, how much will you recover. And certainly, my view would also be in 2019, if it's property as security, then the capacity to move that property at a decent value is quite difficult, right, and you guys all live in this market, you know this.

So I think the pace of recoveries is something that we can't judge but certainly from our perspective, it's a book we work hard. For us, it's – we've got 127% gross loan coverage. It's something that we basically want to get back as much as we can and there's about AED20 billion of gross loans sitting there.

Operator

There are no further questions sir. I'll hand over to you for any closing remarks. Thank you.

Shayne Nelson

Thank you very much, Claire. I'd like to thank you all for your participation today and some good questions. I'm sorry I couldn't answer them all to the level of your satisfaction but we can only do what we can do from a regulatory and legal perspective. But thank you for joining the call. I'm very happy with

the set of results and I think one of the major reasons I'm happy with the set of results was that it was across our entire business.

It was a very deep set of numbers. It wasn't one business firing on one engine. It was right across the board from retail, to wholesale, to treasury through our international operations. I was very happy with the performance and I'd like to thank you very much for joining the call and I look forward to talking to you at the end of next quarter. Thank you very much. Cheers.

Operator

For any further questions, please contact our Investor Relations department, whose contact details can be found on the Emirates NBD website and on the results press release. A replay of this call and webcast will also be available on the Emirates NBD website next week. Ladies and gentlemen that concludes today's conference call. Thank you all for your participation. You may now disconnect.

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